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DEPARTMENT FOR D, AF/SPG, AF/EPS, AND EB/IFD/ODA

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SUBJECT: IMF COMMENTS ON SUDANESE ECONOMY

Ref: Khartoum 0276

KHARTOUM 00000313 001.2 OF 002

¶1. (U) Summary: Visiting International Monetary Fund (IMF) Deputy Director Lorenzo Perez noted that the country faces challenges of large arrears, decentralization, lack of transparency, and the creation of a dual banking system mandated by the CPA. Perez said, however, that the Central Bank has been working constructively with the IMF. Sudan has managed to control inflation and achieve rapid GDP growth. Perez agreed that the political challenges of implementing the CPA and resolving the Darfur conflict may impede economic growth. End Summary.

Arrears limit New Lending

¶2. (U) In a February 6 meeting with the Charge and embassy officers, Lorenzo Perez, IMF Deputy Director for Middle East and Central Asia, accompanied by IMF Resident Representative Bruno de Schaetzen, reviewed the economic situation of Sudan and the Fund's activities in the country. The visit came at the end of a two-week visit to Sudan as an Article IV consultation to review progress on the country's 2005 Staff-Monitored Program (SMP). Perez noted that Sudan has arrears of \$1.5 billion with the IMF, preventing it from new lending and keeping it on a series of SMPs since 1997. Over the past few years, the Central Bank has been successful in controlling inflation and promoting economic growth. Perez said that Sudan is working toward a long-term program to clear its arrears, and grouped Sudan with Somalia and Liberia as debtor countries that have received special attention by the G-8.

CPA And Oil Create Challenges

¶3. (U) With the Comprehensive Peace Agreement, (CPA), the central bank faces several challenges. Among these are the technical challenges of implementing the CPA required establishment of a Branch of the Central Bank in Southern Sudan and a dual system of banking. (Note: the Government of Southern Sudan announced the formation of such a branch effective February 1 - see reftel. End note.)

¶4. (U) Decentralization and the growth in oil revenues are also causing challenges for the Central Bank. Perez noted that before 2003 there were minimal transfers to the states, but that by 2005 large transfers were being made. This is expected to continue in 2006. These transfers raise a set of questions including transparency, capacity, and possible waste or misuse of money. The growth in these revenue flows

is due to the income from oil, but as Perez observed, because of U.S. sanctions, the oil partners of Sudan are "not an especially transparent group." He expressed concern that there are many opportunities for oil revenues to go astray.

Government Generally Forthcoming

15. (U) In response to a question on what information the Sudanese provide to the IMF, Perez said that government authorities are generally forthcoming in providing information requested by the Fund; however, in the past few months, there has been some deterioration in the quality and timeliness of information provided. He speculated that this might be due to the transition to the new Government of National Unity, which was formed in late September 2005. He also noted that he had found it difficult to arrange a meeting with the Minister of Finance and National Economy, and speculated that this could reflect a struggle within the government regarding the degree of candor to be permitted with international organizations.

16. (U) Recent reports in the local press have stated that transfers in the range of \$700 million were made from the central government to the Government of Southern Sudan. Perez confirmed that these reports are consistent with the information the Fund has received from the central Bank and other sources. However, he added the caveat that it is difficult find where the money went after it was transferred to the South. Systems for following the money are not well established.

Political Situation A Mess

KHARTOUM 00000313 002 OF 002

17. (U) Perez asked about the political situation of Sudan. The Charge enumerated challenges, including the Darfur conflict, frictions with neighbors, the CPA implementation, the near total lack of development in areas outside of Khartoum, and the growing disparity in income between urban and rural areas. Perez responded, "What a mess," but conceded that Sudan at least has access to oil revenues as it seeks to address its problems.

18. (U) Perez ended his meeting abruptly when a call came through that the Minister of Finance and National Economy would see him immediately. (Note: he was scheduled to depart Khartoum the same evening.)

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